

MILFORD MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
AND SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

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MILFORD MUNICIPAL UTILITIES
MILFORD, IOWA

JUNE 30, 2006

OFFICIALS
(Before January 2006)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Don Brinkley	Trustee (Chairman)	December 31, 2005
James Studer	Trustee (Vice-Chairman)	December 31, 2007
Keith Wurtz	Trustee	December 31, 2008
Don Payne	Trustee	December 31, 2009
Steve Feld	Trustee	December 31, 2006

OFFICIALS
(After January 2006)

James Studer	Trustee (Chairman)	December 31, 2007
Steve Feld	Trustee (Vice-Chairman)	December 31, 2006
Keith Wurtz	Trustee	December 31, 2008
Gary Moeller	Trustee	December 31, 2011
Tom Cooper	Trustee	December 31, 2009
Don Payne - Retired	Trustee	

Robert Sewell	General Manager
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Joyce McCrea	Office Manager / Board Secretary
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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

We have audited the accompanying financial statements of the business-type activities and each major fund of Milford Municipal Utilities (Utilities), a component unit of the City of Milford, as of and for the year ended June 30, 2006, which collectively comprise Milford Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Milford Municipal Utilities at June 30, 2006, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2007 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *General Auditing Standards*, and should be considered in accessing the results of our audit.

Budgetary comparison information on pages 19 and 20 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Milford Municipal Utilities has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Wintner, Steve R. LHP

January 30, 2007

BASIC FINANCIAL STATEMENTS

MILFORD MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Business-Type Activities
ASSETS:	
Cash and cash equivalents	\$ 978,929
Accounts receivable	279,486
Inventory	396,507
Other current assets	111,677
Total current assets	1,766,599
Restricted assets	1,272,564
Other assets	77,370
Capital assets - net of accumulated depreciation	8,735,048
TOTAL ASSETS	<u>11,851,581</u>
LIABILITIES:	
Accounts payable	263,636
Accrued expenses	94,101
Consumers' deposits	36,642
Total current liabilities	394,379
Long-term liabilities:	
Due or payable within one year:	
Revenue bonds/notes	315,185
Due or payable after one year:	
Revenue bonds/notes	3,494,455
TOTAL LIABILITIES	<u>4,204,019</u>
NET ASSETS:	
Invested in capital assets - net of related debt	5,525,408
Restricted:	
Debt service	462,378
Capital projects	140,276
Total restricted	602,654
Unrestricted	1,519,500
 TOTAL NET ASSETS	 <u>\$ 7,647,562</u>

MILFORD MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities
OPERATING REVENUES	\$ 2,942,694
OPERATING EXPENSES:	
Direct costs	1,492,043
Operating expenses	435,936
Administrative expenses	803,495
TOTAL OPERATING EXPENSES	<u>2,731,474</u>
OPERATING INCOME	<u>211,220</u>
NON-OPERATING INCOME (EXPENSE):	
Interest income	113,730
Other Income	522
Interest expense	<u>(177,559)</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(63,307)</u>
CHANGE IN NET ASSETS	147,913
NET ASSETS - BEGINNING OF YEAR	<u>7,499,649</u>
NET ASSETS - END OF YEAR	<u>\$ 7,647,562</u>

MILFORD MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS
JUNE 30, 2006

ASSETS

	Electric Fund	Water Fund	Total
CURRENT ASSETS:			
Cash and cash equivalents (Note 2):			
Unrestricted, undesignated	\$ 251,784	\$ 378,649	\$ 630,433
Board designated:			
Improvement and extension	46,648	93,202	139,850
Vehicle and equipment funds	58,613	19,391	78,004
Fuel oil fund	58,741		58,741
Community development fund	71,901		71,901
Total cash and cash equivalents	487,687	491,242	978,929
Accounts receivable	196,078	83,408	279,486
Inventory	355,801	40,706	396,507
Prepaid expenses	24,842	48,060	72,902
Interest receivable	4,514	4,449	8,963
Other receivables	29,278	534	29,812
TOTAL CURRENT ASSETS	<u>1,098,200</u>	<u>668,399</u>	<u>1,766,599</u>
NONCURRENT ASSETS:			
Purchased service rights - at cost	13,470		13,470
CTS - acquisition costs (net)	43,329		43,329
Loan costs (net)	20,571		20,571
Restricted assets:			
Consumers' deposit fund	48,725		48,725
Revenue bond sinking fund	94,626	22,752	117,378
Principal and interest reserve	240,000	105,000	345,000
CTS - improvement fund	140,276		140,276
Sewer fund - district and city	21,185		21,185
Loan proceeds		600,000	600,000
TOTAL NONCURRENT ASSETS	<u>622,182</u>	<u>727,752</u>	<u>1,349,934</u>
CAPITAL ASSETS (Note 3):			
Capital assets	10,048,159	6,072,009	16,120,168
Accumulated depreciation	(5,295,996)	(2,089,124)	(7,385,120)
TOTAL CAPITAL ASSETS	<u>4,752,163</u>	<u>3,982,885</u>	<u>8,735,048</u>
 TOTAL ASSETS	 <u>\$ 6,472,545</u>	 <u>\$ 5,379,036</u>	 <u>\$11,851,581</u>

MILFORD MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS - Continued
JUNE 30, 2006

LIABILITIES AND FUND NET ASSETS

	Electric Fund	Water Fund	Total
CURRENT LIABILITIES:			
Accounts payable	\$ 191,300	\$ 72,336	\$ 263,636
Accrued employee benefits	18,299	4,769	23,068
Accrued interest	24,867	9,033	33,900
Accrued payroll taxes	852	398	1,250
Accrued sales tax	5,427	3,482	8,909
Accrued property tax	18,614		18,614
Accrued wheeling	8,360		8,360
Consumers' deposits	36,642		36,642
Current portion long-term debt	<u>155,000</u>	<u>160,185</u>	<u>315,185</u>
TOTAL CURRENT LIABILITIES	<u>459,361</u>	<u>250,203</u>	<u>709,564</u>
LONG-TERM DEBT (Note 4):			
Revenue capital notes payable	1,080,000	2,729,640	3,809,640
Less current portion above	<u>155,000</u>	<u>160,185</u>	<u>315,185</u>
TOTAL LONG-TERM DEBT	<u>925,000</u>	<u>2,569,455</u>	<u>3,494,455</u>
TOTAL LIABILITIES	<u>1,384,361</u>	<u>2,819,658</u>	<u>4,204,019</u>
FUND NET ASSETS:			
Invested in capital assets - net of related debt	<u>3,672,163</u>	<u>1,853,245</u>	<u>5,525,408</u>
Restricted:			
Debt service	334,626	127,752	462,378
Capital projects	140,276		140,276
Total restricted	<u>474,902</u>	<u>127,752</u>	<u>602,654</u>
Unrestricted	<u>941,119</u>	<u>578,381</u>	<u>1,519,500</u>
TOTAL FUND NET ASSETS	<u>5,088,184</u>	<u>2,559,378</u>	<u>7,647,562</u>
TOTAL LIABILITIES AND FUND NET ASSETS	<u>\$ 6,472,545</u>	<u>\$ 5,379,036</u>	<u>\$11,851,581</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Electric Fund	Water Fund	Total
REVENUE:			
Operating revenues	\$ 2,263,768	\$ 678,926	\$ 2,942,694
OPERATING EXPENSES:			
Direct costs	1,412,065	79,978	1,492,043
Other operating expenses	299,174	136,762	435,936
Administrative expenses	545,126	258,369	803,495
TOTAL OPERATING EXPENSES	<u>2,256,365</u>	<u>475,109</u>	<u>2,731,474</u>
OPERATING INCOME	<u>7,403</u>	<u>203,817</u>	<u>211,220</u>
NON-OPERATING INCOME (EXPENSE):			
Interest income	46,696	67,034	113,730
Other income	522		522
Interest expense	<u>(65,551)</u>	<u>(112,008)</u>	<u>(177,559)</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(18,333)</u>	<u>(44,974)</u>	<u>(63,307)</u>
CHANGE IN FUND NET ASSETS	(10,930)	158,843	147,913
FUND NET ASSETS - JULY 1, 2005	<u>5,099,114</u>	<u>2,400,535</u>	<u>7,499,649</u>
FUND NET ASSETS - JUNE 30 2006	<u>\$ 5,088,184</u>	<u>\$ 2,559,378</u>	<u>\$ 7,647,562</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Electric Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$2,296,505	\$ 689,556	\$2,986,061
Cash paid to suppliers	(1,760,504)	(288,538)	(2,049,042)
Cash paid to employees	(244,514)	(114,652)	(359,166)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>291,487</u>	<u>286,366</u>	<u>577,853</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Renewable energy revenue	<u>522</u>		<u>522</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>522</u>		<u>522</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(300,632)	(162,013)	(462,645)
Revenue bond principal repayment	(150,000)	(151,685)	(301,685)
Interest paid	(71,193)	(117,780)	(188,973)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(521,825)</u>	<u>(431,478)</u>	<u>(953,303)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received from investments	<u>45,620</u>	<u>68,160</u>	<u>113,780</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>45,620</u>	<u>68,160</u>	<u>113,780</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(184,196)</u>	<u>(76,952)</u>	<u>(261,148)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>671,883</u>	<u>568,194</u>	<u>1,240,077</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 487,687</u>	<u>\$ 491,242</u>	<u>\$ 978,929</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income from operations	\$ 7,403	\$ 203,817	\$ 211,220
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	261,648	131,129	392,777
Amortization	9,264		9,264
(Increase) decrease in:			
Consumer deposits and sewer fund	(4,232)		(4,232)
Accounts receivable	34,415	34,072	68,487
Materials and supplies inventory	(54,415)	(5,364)	(59,779)
CTS improvement fund	45,560		45,560
Other assets	(273)	(23,442)	(23,715)
Increase (decrease) in:			
Accounts payable	(7,784)	(53,957)	(61,741)
Accrued wages, vacations, and benefits	1,672	(354)	1,318
Consumer deposits	2,554		2,554
Accrued expenses	<u>(4,325)</u>	<u>465</u>	<u>(3,860)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 291,487</u>	 <u>\$ 286,366</u>	 <u>\$ 577,853</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements of Milford Municipal Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford. Milford Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, the Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities report the following major enterprise funds:

Electric Fund - the Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of six months or less.

Accounts Receivable

Accounts receivable and revenue are recorded at the time that service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. Accounts are reviewed annually; accounts considered uncollectable are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2006.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as an expenditure or, if applicable, capitalized when consumed.

Other Assets

CTS acquisition costs are being amortized on a straight-line basis over 25 years, and are presented at the net value. Loan costs related to issued capital notes are being amortized on a straight-line basis over 15 years, which approximates the effective interest method, and are presented at the net value.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Current Liabilities

The accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction or improvement of those assets and increased by unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

The Utilities' deposits in banks at June 30, 2006, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2006.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

3. CAPITAL ASSETS

Property, plant, and equipment are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized. The Utility accounted for existing infrastructure through the use of an independent engineer's report.

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. The Utilities had no capitalized interest during the year.

Under a joint ownership agreement with other utilities, the Electric Utility has a .347% undivided interest in a 640 MW electric generation station known as George Neal Generating Station Unit No. 4. The Electric Utility's .347% ownership interest in this plant represents a total investment of \$1,294,088 included in utility plant in service with \$925,882 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of income.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	20 - 50
Equipment	7 - 20
Distribution System	20 - 67

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

3. CAPITAL ASSETS - Continued

A summary of changes in capital assets is as follows:

Water Utility Plant				
	Balance at July 1, 2005	Additions	Deletions	Balance at June 30 2006
PRODUCTION PLANT:				
Land	\$ 37,855			\$ 37,855
Buildings	1,819,241			1,819,241
Intakes	79,733			79,733
Equipment	1,073,245	\$ 20,637		1,093,882
Mains	1,096,805	1,746		1,098,551
Wells		196,405		196,405
	<u>4,106,879</u>	<u>218,788</u>		<u>4,325,667</u>
STORAGE AND DISTRIBUTION PLANT:				
Towers	251,067			251,067
Mains, hydrants, and service	219,113			219,113
Meters	175,789	10,636		186,425
	<u>645,969</u>	<u>10,636</u>		<u>656,605</u>
GENERAL PLANT:				
Tools and work equipment	16,939			16,939
CONSTRUCTION IN PROGRESS	<u>325,209</u>	<u>943,994</u>	<u>\$196,405</u>	<u>1,072,798</u>
	<u>\$5,094,996</u>	<u>\$1,173,418</u>	<u>\$196,405</u>	<u>\$ 6,072,009</u>
Electric Plant				
	Balance at July 1, 2005	Additions	Deletions	Balance at June 30 2006
PRODUCTION PLANT:				
Land	\$ 72,365		\$ 40,000	\$ 32,365
Building	391,242			391,242
Machinery and equipment	598,466	\$ 6,405		604,871
Accessory electric equipment ...	764,155			764,155
	1,826,228	6,405	40,000	1,792,633
Neal #4	1,254,071	40,017		1,294,088
Common transmission system .	1,292,568	111,125		1,403,693
	<u>4,372,867</u>	<u>157,547</u>	<u>40,000</u>	<u>4,490,414</u>
DISTRIBUTION PLANT:				
Distribution facilities	4,790,063	119,481		4,909,544
Street lights and signal systems	182,851	22,990		205,841
	<u>4,972,914</u>	<u>142,471</u>		<u>5,115,385</u>
GENERAL PLANT:				
Transportation equipment	281,248	23,779		305,027
Other equipment	120,498	16,835		137,333
CONSTRUCTION IN PROGRESS	<u>401,746</u>	<u>40,614</u>		<u>442,360</u>
	<u>\$9,747,527</u>	<u>\$ 340,632</u>	<u>\$ 40,000</u>	<u>\$10,048,159</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

4. LONG-TERM DEBT

Electric Fund

During the year ended June 30, 1997, the Utility issued electric revenue notes in the amount of \$2,200,000 for the construction costs related to an addition to the power plant and improvements to the generation facilities. The notes bear interest of 4.40% - 5.65%, mature annually from February 1, 1999 to February 1, 2012, and are secured by future net revenues of the Electric Utility.

The resolution providing for the issuance of the revenue notes provides for the creation of a Sinking Fund, into which shall be set aside an amount equal to the amount of annual principal and interest coming due on those notes, and a Reserve Fund, which is established at the minimum required amount.

A summary of the Electric Fund's June 30, 2006 long-term indebtedness is as follows:

<u>Due Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2007	\$ 155,000
2008	165,000
2009	175,000
2010	185,000
2011	195,000
2012	<u>205,000</u>
 TOTAL	 <u>\$1,080,000</u>

Water Fund

On June 24, 2003, the Utility issued a Water Revenue Refinancing Capital Loan Note - Series 2003, in the amount of \$1,200,000. The note bears interest at the rate of 3.5% per annum and matures on August 1, 2004 through July 1, 2018. The monthly payment required is \$8,579, including interest. The resolution providing for the issuance of the revenue notes provides for the creation a Sinking Fund, into which there shall be set aside an amount sufficient to make the following month's payment, and a Reserve Fund, into which there shall be set aside each month \$2,145 until \$102,948 has been accumulated and shall be used for meeting any deficiencies in the Sinking Fund.

On May 25, 2005 the Utility issued Water Revenue Capital Loan Notes in the amount of \$1,800,000. The notes bear interest at 4.25% and mature from December, 2005 to June, 2020 and require monthly payments of \$13,552. The resolution providing for the issuance of the Revenue Notes provides for the creation of a Sinking Fund into which there shall be set aside an amount sufficient to make the following month's payment of principal and interest.

The Series 2003 and Series 2005 Capital Loan Notes are secured by future net revenues of the Water Utility.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

4. LONG-TERM DEBT - Continued

Water Fund - Continued

A summary of the Water Fund's long-term indebtedness follows:

Due Year Ending <u>June 30,</u>	<u>2003 Water Revenue Note</u>	<u>2005 Water Revenue Note</u>	<u>Total</u>
2007	\$ 68,622	\$ 91,563	\$ 160,185
2008	70,919	95,531	166,450
2009	73,528	99,671	173,199
2010	76,141	103,992	180,133
2011	78,850	108,497	187,347
2012 - 2016	438,282	617,231	1,055,513
2017 - 2020	<u>209,549</u>	<u>597,264</u>	<u>806,813</u>
TOTAL	<u>\$1,015,891</u>	<u>\$1,713,749</u>	<u>\$2,729,640</u>

A summary of the changes in long-term debt for the year ended June 30, 2006 is as follows:

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Balance 7-1-05</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 6-30-06</u>
Water revenue notes	\$1,200,000	3.50%	2004-2018	\$1,081,325		\$ 65,434	\$1,015,891
Water revenue notes	1,800,000	4.25%	2005-2020	1,800,000		86,251	1,713,749
Electric revenue notes	2,200,000	4.4-5.65%	1999-2012	<u>1,230,000</u>		<u>150,000</u>	<u>1,080,000</u>
TOTAL				<u>\$4,111,325</u>		<u>\$301,685</u>	<u>\$3,809,640</u>

5. PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$20,788, \$18,741, and \$17,948, respectively, equal to the required contributions for each year.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2006

6. RATES

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Effective December 20, 2006, the Electric Utility increased user rates for all consumption by 10%.

7. LEASES

The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The revenues from such leases are included in operating income. The Utility's investment in these facilities is included in capital assets in service and is set forth in Note 3.

The lease of the Neal 4 plant is a long-term commitment based on capacity. The amount is determined by formula based on usage and totaled \$100,917 in 2006.

8. RISK MANAGEMENT

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. RELATED PARTY TRANSACTIONS

The Utilities had business transactions between the Utilities and Utilities' officials totaling \$2,105 during the year ended June 30, 2006.

10. BUDGET

During the year ended June 30, 2006 the Utilities exceeded its budgeted expenditures by \$21,048.

11. COMMITMENTS

During 2005, the Water Utility entered into a construction contract totaling approximately \$694,000 for pump house improvements to be completed in 2006. Approximately \$564,000 has been paid or accrued as of June 30, 2006. The \$130,000 balance remaining on the project at June 30, 2006 will be paid as work on the project progresses. In conjunction with this project, engineer services of approximately \$150,000 were billed to the Water Utility in September 2006.

REQUIRED SUPPLEMENTARY INFORMATION

MILFORD MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Actual</u>	<u>Original/ Final Budget</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUE:			
Charges for services	\$2,942,694	\$3,185,096	\$(242,402)
Non-operating	<u>114,252</u>	<u>26,847</u>	<u>87,405</u>
TOTAL REVENUE	<u>3,056,946</u>	<u>3,211,943</u>	<u>(154,997)</u>
EXPENSES:			
Electric	2,321,916	2,322,806	890
Water	<u>587,117</u>	<u>565,179</u>	<u>(21,938)</u>
TOTAL EXPENSES	<u>2,909,033</u>	<u>2,887,985</u>	<u>(21,048)</u>
CHANGE IN FUND NET ASSETS	147,913	323,958	<u>\$(176,045)</u>
FUND NET ASSETS - JULY 1, 2005	<u>6,604,871</u>	<u>6,858,674</u>	
FUND NET ASSETS - JUNE 30, 2006	<u>\$6,752,784</u>	<u>\$7,182,632</u>	

MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2006

In accordance with the Code of Iowa, the Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. All Utilities' disbursements are included in business-type activities function.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the business-type activities function by \$21,048.

OTHER SUPPLEMENTARY INFORMATION

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Electric Fund</u>	<u>Water Fund</u>
OPERATING REVENUES:		
Utility Sales:		
Residential	\$ 886,293	\$ 345,895
Commercial	356,767	307,612
Demand	627,834	
Tank lot water sales		2,345
Public authorities	55,180	
Water department	25,573	
Neal #4 credits	100,917	
Diesel credits	191,799	
Other:		
Consumer penalties	3,473	964
Miscellaneous income	15,932	8,110
Meter sales	<u> </u>	<u>14,000</u>
TOTAL OPERATING REVENUES	<u>\$2,263,768</u>	<u>\$ 678,926</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2006

	Electric Fund	Water Fund
DIRECT COSTS:		
Distribution Maintenance	\$ 25,898	\$ 4,860
Equipment maintenance	14,650	7,860
Lab		12,506
Miscellaneous direct costs	2,816	
Neal #4 charges - coal, oil, power generator	236,101	
Plant maintenance	7,256	1,444
Product - chlorine and fluoride		21,510
Purchased power		25,573
Purchased power - NIMECA	905,174	
Purchased power - WAPA	203,453	
Sewer charges		6,225
Wheeling	16,717	
TOTAL DIRECT COSTS	<u>1,412,065</u>	<u>79,978</u>
OPERATING EXPENSES:		
Salaries	246,186	114,298
Small tools and supplies	2,679	415
Sub-contractor	10,874	14,931
Vehicle expense	31,661	4,788
Miscellaneous operating expenses	7,774	2,330
TOTAL OPERATING EXPENSES	<u>299,174</u>	<u>136,762</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES - Continued
 FOR THE YEAR ENDED JUNE 30, 2006

	Electric <u>Fund</u>	Water <u>Fund</u>
ADMINISTRATIVE EXPENSES:		
Amortization	\$ 9,264	
Building maintenance - office	10,984	\$ 3,012
Community development	2,573	1,412
Computer supplies and programs	5,098	3,689
Depreciation	261,648	131,129
Director fees	2,550	2,700
Dues and subscriptions	5,501	1,826
Education and safety	2,294	792
Employee benefits	43,683	18,176
Engineer fees	5,431	444
Insurance - general	33,717	18,164
Laundry and uniforms	1,180	594
Legal and professional	9,291	4,420
Maintenance - office equipment	517	182
Miscellaneous	2,450	8,337
Office supplies	7,389	7,968
Payroll taxes - FICA and IPERS	32,383	15,282
Postage	6,301	5,733
Property taxes	14,728	
Rebates	9,481	
Supplies	498	328
Sales tax paid	69,999	31,789
Telephone	3,641	1,829
Travel	2,646	363
Utilities and sanitation	344	188
Inventory adjustment	1,535	12
TOTAL ADMINISTRATIVE EXPENSES	<u>545,126</u>	<u>258,369</u>
 TOTAL	 <u>\$2,256,365</u>	 <u>\$ 475,109</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

We have audited the financial statements of the Milford Municipal Utilities as of and for the year ended June 30, 2006, and have issued our report thereon dated January 30, 2007. We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Milford Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above, item I-A-06, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Winder, Steve" followed by a stylized set of initials "H C ZLP".

January 30, 2007

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were noted

Reportable Condition:

I-A-06 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting

- II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 did exceed the amounts budgeted by \$21,048.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.

- II-D-06 Business Transactions - Business transactions between the Utilities and Utilities' officials are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
James Studer, Trustee, Owner - Excel Auto Body Ltd.	Maintenance	\$ 2,084
Keith Wurtz, Trustee Owner - Milford Pharmacy	Supplies	\$ 21

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Trustees do not appear to represent conflicts of interest, since total transactions with each Trustee did not exceed \$2,500 during the fiscal year.

- II-E-06 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting

- II-G-06 Revenue Notes - The Utilities is in compliance with all aspects of the bond resolutions including cash reserves.
- II-H-06 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.